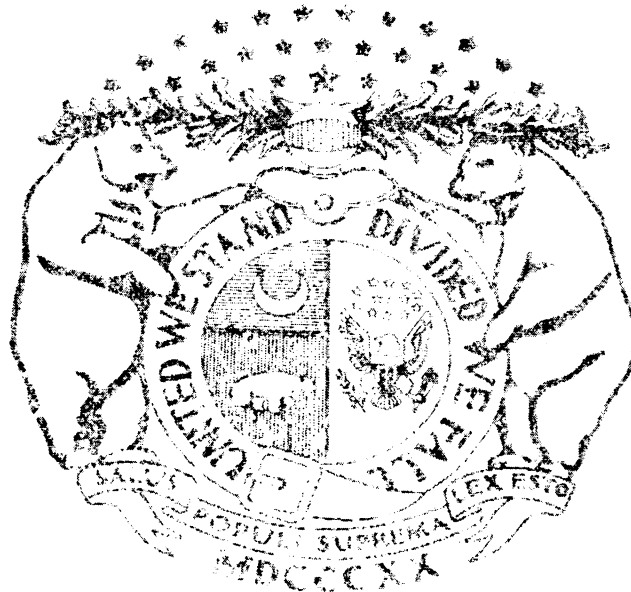


REPORT OF
FINANCIAL EXAMINATION
DIRECTOR OF INSURANCE

FILED
FEB 14 2005

Missouri Life and Health Insurance Guaranty Association

AS OF
December 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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November 12, 2004
Jefferson City, MO

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, MO 65101

Sir:

In accordance with your financial examination warrant, an examination has been made of the records, affairs and financial condition of

Missouri Life and Health Insurance Guaranty Association

also referred to as "MOLHIGA" or as the "Association." The location of the Association's administrative office is 994 Diamond Ridge, Suite 102, Jefferson City, MO 65109. The Association's telephone number is (573) 634-8455. This examination began on October 4, 2004 and concluded November 12, 2004.

SCOPE OF EXAMINATION

Period Covered

The last financial examination of the Association was performed as of December 31, 1998, by an examiner from the State of Missouri.

The current financial examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by an examiner from the State of Missouri. This examination also included material transactions and/or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed. The Association is governed by Sections 376.715 to 376.758 RSMo, (Missouri Life and Health Insurance Guaranty Association Act). The examination verified that the Association is complying with the provisions of these statutes.

The workpapers of the Company's independent auditor were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

There were no comments or recommendations included in the prior examination report.

HISTORY

General

The Missouri Life and Health Insurance Guaranty Association, a tax-exempt, non-profit unincorporated legal entity organized under Internal Revenue Code Section 501(c), was established on August 13, 1988, under the provisions of Sections 376.715 to 376.758 RSMo, (Missouri Life and Health Insurance Guaranty Association Act). Per Section 376.740 RSMo, (Plan of operation, required, approval of director—provisions of plan), the purpose of the Association is to protect policyholders against failure in the performance of contractual obligations under life and health insurance policies or annuity

contracts because of impairment or insolvency of the insurer issuing such policies or contracts. Further, the Association has a responsibility to assist the Director of the Department of Insurance in detecting and preventing insurer impairments and insolvencies. The Association is authorized to assess its members in order to fulfill its obligations.

Membership

As of December 31, 2003, there were 897 companies licensed to sell life, health or annuity coverage in Missouri. According to Section 376.718 RSMo, (Definitions), all insurers with authority to transact life or health insurance or annuity business in Missouri are members of the Association and must remain members of the Association as a condition of their authority to transact such business in Missouri. Section 376.718 RSMo, (Definitions) exempts the following from the provisions of Sections 376.715 to 376.758 RSMo: health maintenance organizations; fraternal benefit societies; mandatory state pooling plans; mutual assessment companies; entities that operate on an assessment basis; insurance exchanges.

Management

Section 376.722 RSMo (Board of directors, established, members, how selected-expense reimbursement) requires a Board of Directors consisting of not less than five nor more than nine member insurers, serving terms as established in the Plan of Operation. The Association's Plan of Operation stipulates a board of nine members serving staggered terms of three years. At year-end 2003, the Board of Directors consisted of the following members:

<u>Member Insurer</u>	<u>Term ends</u>	<u>Representative</u>
Aetna Life Insurance Company	2005	David M. Stitzel
American Family Mutual Insurance Company	2006	David Monaghan
Blue Cross/Blue Shield of Kansas City	2006	Steven R. Bledsoe
Farm Bureau Life Insurance Company	2004	Thomas M. Ittner
General American Life Insurance Company	2004	Eric C. DuPont
Fortis Benefits Insurance Company	2005	Dorothy H. Jensen
Kansas City Life Insurance Company	2004	Gary Hoffman
Ozark National Life Insurance Company	2005	David R. Melton
Shelter Life Insurance Company	2006	Pat McDonald

The officers elected and serving at December 31, 2003 were:

<u>Name</u>	<u>Office</u>
Steven R. Bledsoe	Chair
Pat McDonald	Vice-Chair
Gary Hoffman	Secretary/Treasurer

The officers of the Association comprise the Executive Committee. The Board delegates the daily operations of the Association to an Executive Director. Charles Renn has served as Executive Director of the Association since May 1992. In April 2001, the Board approved a joint administration agreement with the Missouri Property and Casualty Insurance Guaranty Association. At that time Mr. Renn became the Executive Director of both entities.

Corporate Records

In compliance with Section 376.740 RSMo (Plan of operation, required, approval of director—provisions of plan) the Association adopted a Plan of Operation in 1989. The Association amended and restated the Plan of Operations as of January 1, 1993. The Director of the Missouri Department of Insurance approved the amended and restated Plan of Operations.

The minutes of the meetings of the Board of Directors were reviewed for the period under examination. The minutes appear to properly support the corporate transactions and events for the period under examination. The Board reviewed and approved the December 31, 1998 Report of Financial Examination on May 9, 2000.

Surplus Debentures

The Association does not have any surplus debentures issued or outstanding.

Letter of Credit

The Association maintains a \$5,000,000 unsecured revolving line-of-credit with Central Bank of Jefferson City. Interest accrues at a rate that is tied to the JP Morgan Chase Bank prime rate. The line-of-credit was opened April 6, 1989 and has been renewed annually. There were no borrowings under this agreement during the examination period.

AFFILIATED COMPANIES

Holding Company

The Association is not a member of a holding company system nor does it have any subsidiaries or affiliates.

INSOLVENCIES

The Plan of Operation requires that the Annual Report contain a review of the activities of the Association during the preceding year. The Annual Report for 2003 contains brief descriptions of ongoing insolvencies with material or significant activity during the year. A list of open insolvencies by year and state of domicile at year-end 2003 follows:

<u>Company</u>	<u>Domicile</u>	<u>Year</u>
First Columbia Life Ins.	LA	1988
American Mutual Liability Ins.	MA	1989
Continental Security Life Ins.	N/A	1989
Mutual Security Life Ins.	IN	1990
Diamond Benefits Life Ins	AZ	1991
Executive Life Ins.	CA	1991
Fidelity Bankers Life Ins.	VA	1991
George Washington Life Ins.	WV	1991
Guarantee Security Life Ins.	FL	1991
Inter-American Ins. Of Illinois	IL	1991
Midwest Life Ins.	LA	1991
Fidelity Mutual Life Ins.	PA	1992
Old Colony Life Ins.	GA	1992
American Integrity Ins.	PA	1993
Consumers United Life Ins.	DE	1993

Investment Life of America Ins.	NC	1993
Kentucky Central Life Ins.	KY	1993
National Heritage Life Ins.	DE	1994
Summit National Life Ins	PA	1994
National American Life Ins.	PA	1995
Confederation Life Ins.	MI	1996
American Standard Life Ins.	OK	1997
American Western Life Ins.	UT	1997
Centennial Life Ins.	KS	1998
Universe Life Ins.	ID	1998
First National Life Ins. Of America	MS	1999
International Financial Services Life	MO	1999
Statesman National Life Ins.	TX	1999
American Chambers Life Ins.	OH	2000
Bankers Commercial Life Ins.	TX	2000
Reliance Insurance Co.	PA	2001
Legion Insurance Co.	PA	2003
American Financial Security Life Ins.	N/A	N/A
Great Southwest Portion of First Columbia	N/A	N/A
Monarch Life Ins.	N/A	N/A

INSOLVENCY ASSESSMENTS

Class "A" Administrative Assessments

Class "A" assessments are made in accordance with Section 376.735.2(1) RSMo (Assessments against members, when due, classes—amounts, how determined) to fund the administrative, legal and other expenses of the Association. Class "A" assessments may be made on a pro-rata or non-pro-rata basis as determined by the Board of Directors. The following is a summary of the Class "A" assessments levied during the current examination period:

Year	Type	Amount	Members	Assessment
1999	Non-pro-rata	\$150	940	\$141,000
2000	Non-pro-rata	\$150	923	\$138,450
2001	Non-pro-rata	\$150	923	\$138,450
2002	Non-pro-rata	\$150	897	\$134,550
2003	None		897	

The Plan of Operation requires that Class "A" assessments be approved by a majority of the Board of Directors. A review of the Board of Director meeting minutes for the period under examination indicated that all of the assessments levied during the current examination period were approved by the Board.

Class "B" Assessments

Class "B" assessments are made in accordance with Section 376.735.2(2), RSMo, (Assessments against members, when due, classes—amounts, how determined) to fund the Association's obligations regarding specific impaired or insolvent insurers. Class "B" assessments may only be levied on a pro-rata basis and require the approval of a majority

of the Board of Directors. There have been no Class "B" assessments during the current period under examination.

FIDELITY BOND & OTHER INSURANCE

Missouri Life and Health Insurance Guaranty Association is a named insured on a business policy providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$50,000. The Company is also protected against loss from various hazards and perils by additional coverages, some of which are described below:

Building Personal Property	Tenant Legal Liability
Umbrella Liability	Business Auto Liability
Fire Damage	Medical Expense Liability
General Liability	Employer's Liability
Products/Completed Operations Liability	Workers' Compensation

EMPLOYEE BENEFITS

The Association has a staff of five full-time employees. The Association provides employees with a benefit package including paid vacation, paid sick leave, paid holidays, health and dental insurance, life insurance and long-term disability insurance.

The Association sponsors a defined contribution simplified employee pension plan covering full-time employees with at least one year of service. The Board of Directors contributes to the plan on a discretionary basis. For each year under examination, the Association contributed 8% of an employee's gross salary to the

retirement plan. The Association does not maintain any other post-employment or post-retirement benefit plans.

ACCOUNTS AND RECORDS

The Association prepares its financial statements on a modified cash basis. Trial balances for the period under examination were traced to the annual statement without material exception.

The Association is audited annually by an independent accounting firm. The Association's auditor for the years ended December 31, 2002 and 2003 was Williams Keepers, LLC, CPA. CPA workpapers for the most recent audit were reviewed and used in the examination process as deemed appropriate.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual Annual Statement item.

CLASS "A" ASSETS

Cash	\$ 46,717
Due from Class "B" Fund	1,826
Due from MOPCIGA	25,027
Investments	68,000
Prepaid Expenses	1,571
Capital Assets	<u>14,221</u>

Total Assets: \$ 157,362

CLASS "A" LIABILITIES AND NET ASSETS

Total Liabilities: \$ -

Total Net Assets: \$ 157,362

Total Liabilities and Net Assets \$ 157,362

CLASS "A" SUMMARY OF OPERATIONS

REVENUES

Interest Income	\$ 953
Miscellaneous Income	159
Allocations to Estates	36,563
Allocations to MOPCIGA	<u>239,095</u>
 Total Revenues	 <u>\$ 276,770</u>

EXPENSES

General & Administrative	\$ 1,300
Rent	4,852
Utilities	690
Audit Fees	11,065
Legal Fees	834
Computer Support	340
Depreciation Expense	2,127
Dues, Fees & Subscriptions	1,670
Employee Benefits	56,656
Insurance	563
Printing	746

Postage	521
Contractor Services	7,554
Salaries	275,988
Office Supplies	815
Telephone and Fax	1,496
Taxes-Employer's FICA	11,721
Tax-Unemployment	165
Travel Expense	<u>6,365</u>

Total Expenses	<u>\$ 385,468</u>
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Net Income	<u>\$ (108,698)</u>
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CLASS "A" NET ASSETS

Net Assets, prior year	\$ 267,710
Net Income/(Loss)	(108,698)
Unexplained Difference	<u>(1,650)</u>
Net Assets, current year	<u>\$ 157,362</u>

CLASS "B" ASSETS

Cash & Cash Equivalents	\$ 746,638
Accounts Receivable	275,370
Other Short-Term Investments	30,047,129
Long-Term Investments	<u>3,838,893</u>

Total Assets: \$ 34,908,029

CLASS "B" LIABILITIES AND NET ASSETS

Accounts Payable	\$ 1,826
Funds Held for Others	353
Notes Payable	1
Estimated Claims Payable	<u>31,845,475</u>

Total Liabilities \$ 31,847,656

Total Net Assets: \$ 3,060,374

Total Liabilities and Net Assets: \$ 34,908,029

CLASS "B" SUMMARY OF OPERATIONS

REVENUES

Premium Income	\$ 36,941
Interest Income	1,018,661
Liquidation Distributions	<u>407,294</u>

Total Revenues	<u>\$ 1,462,896</u>
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EXPENSES

Policyholder Claims	\$ 198,967
Assumption Reinsurance Ceding Costs	1,891,092
Change in Estimated Claims	1,018,198
Professional Fees	3,503
NOLHGA Expenses	276,767
General and Administrative	<u>39,858</u>

Total Expenses	<u>\$ 3,428,386</u>
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Net Income	<u>\$ (1,965,489)</u>
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CLASS "B" NET ASSETS

Net Assets, prior year	\$ 5,025,863
Net Income/(Loss)	<u>(1,965,489)</u>
Net Assets, current year	<u>\$ 3,060,374</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by Missouri Life and Health Insurance Guaranty Association during the course of this examination is hereby acknowledged and appreciated.

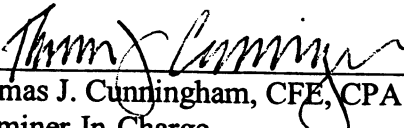
VERIFICATION

State of Missouri)

) ss

County of Cole)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.



Thomas J. Cunningham, CFE, CPA
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 15th day of December 2004.

My commission expires:

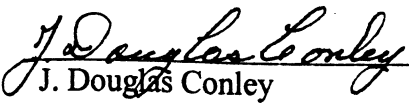
Oct. 7, 2005

RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


J. Douglas Conley
CFE, FLMI, CIE, AIAF, ARe
Audit Manager - St. Louis
Missouri Department of Insurance